

Message Text

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72

ACTION EB-11

INFO OCT-01 AF-10 ARA-16 EUR-25 ISO-00 AGR-20 SWF-02 L-03

SP-03 AID-20 NSC-07 RSC-01 CIEP-02 TRSE-00 SS-20

STR-08 OMB-01 CEA-02 CIAE-00 COME-00 FRB-02 INR-10

NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01 PA-04 PRS-01

USIA-15 DRC-01 /211 W

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R 132140Z MAY 74

FM AMEMBASSY SAN SALVADOR

TO SECSTATE WASHDC 5452

INFO AMEMBASSY BOGOTA

AMEMBASSY BRASILIA

AMEMBASSY CARACAS

AMEMBASSY GUATEMALA

AMEMBASSY LONDON

AMEMBASSY MANAGUA

AMEMBASSY MEXICO

AMEMBASSY SAO PAULO

AMCONSUL RIO DE JANEIRO

AMEMBASSY SAN JOSE

AMEMBASSY TEGUCIGALPA

AMEMBASSY ABIDJAN

AMCONSUL LUANDA

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E.O. 11652 NA

TAGS: ETRD: EAGR: ES

SUBJ: COFFEE-"OTROS SUAVES, S.A.:

REF: A. SAN SALVADOR A-46 OF MARCH 22; B. SAN SALVADOR 1202;

C. SAN JOSE 1709; D. RIO DE JANEIRO 1684

1. IN MAY 13 CONVERSATION WITH JOSE ANTONIO TONOCO, PRESIDENT,
SALVADORAN COFFEE COMPANY (CSC), EMBOFF DISCUSSED MAY 5-7

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MEETING IN PUNTARENAS (REF C) AND THE NEW "OTHER MILDS" COFFEE

COMPANY, FINANCING FOR THE NEW COMPANY, STRATEGY ON PRICE AND REASON FOR CURRENT STAGNATION, ICB CALAZANS DE MAGALHAES VISIT AND VIEWS ON ICA, AND THE SALVADORAN STOCK AND SALES SITUATION; EACH OF WHICH IS SUMMARIZED BELOW.

2. TINOCO VIEWED THE PUNTARENAS MEETING AS HAVING GOOD RESULTS, PROGRESSING FROM THE MARCH MEETING IN MEXICO (REF B), AND GIVING THE BASIS FOR NEW COOPERATION IN REAL MARKET TERMS BETWEEN THE "OTHER MILDS" AND COLOMBIA AND BRAZIL. THE IDEA FOR AN "OTHER MILDS" COFFEE COMPANY, SEPARATE BUT COORDINATED WITH CAFE MUNDIAL, WON ACCEPTANCE AND FINANCING. COSTA RICA AND MEXICO HAVE FORMALLY JOINED AND GUATEMALA AND EL SALVADOR INTEND TO JOIN BUT MUST COMPLETE FORMALITIES. THE AS-YET-UNNAMED (BUT "OTROS SUAVES, S.A." IS THE ONLY NAME THUS FAR SUGGESTED) COMPANY WILL BE OPEN TO ALL "OTHER MILDS" ASSESSMENTS FOR FINANCING WILL BE THE SAME FOR ALL PARTICIPANTS AND THE FIGURE OF \$3 MILLION IS CURRENTLY MENTIONED. ITS PURCHASES FOR PRICE DEFENSE WILL BE UNRESTRICTED AS TO TYPE (C CONTRACT, SPOT, ETVLIML BUT WILL EMPHASIZE FINANCING SALES FOR THE "WEAKER MILDS", E.G. HAITI. THE SITE AND PERSONNEL OF THE COMPANY ARE UNDER CONSIDERATION, WITH THE SITE DEPENDING MOST UPON THE COMPARATIVE BENEFITS OFFERED FOR OPERATION BY THE LAWS OF THE DIFFERENT MEMBERS' COUNTRIES.

3. THE LOCAL PRESS REPORTED THE FORMATION OF THE NEW COMPANY AND PLEDGES OF FINANCING FROM BRAZIL (\$100 MILLION), VENEZUELA (\$20 MILLION) AND COLOMBIA, AS WELL AS FROM THE MEMBERS. TINOCO SAID BRAZIL PLEDGED AVAILABILITY OF AT LEAST \$100 MILLION, VENEZUELA \$20 MILLION AT LOW INTEREST RATES (PROBABLY 3-4, MAXIMUM 5 PERCENT), AND COLOMBIA OFFERED TO FINANCE AS MUCH ADDITIONAL AS MIGHT BE NEEDED. AT THE INITIALLY SUGGESTED \$3 MILLION FINANCING PER MEMBER, THE FOUR INITIAL MEMBERS WOULD PROVIDE \$12 MILLION, FOR A BEGINNING POTENTIAL FINANCIAL BASE EXCEEDING \$132 MILLION.

4. AS REPORTED IN REFS A AND B, TINOCO CONFIRMED THAT THE OBJECTIVE OF THE COMPANY IS NOT TO PUSH UP COFFEE PRICES EXCESSIVELY, BUT TO IRON OUT PRICE FLUCTUATIONS, PROVIDE ADDITIONAL MARKET CERTAINTY AND SOME ADDITIONAL PRICE. HE SAID THAT EXCESSIVE SELLING BY THE COLOMBIANS WAS MOST LIKELY A MAJOR CONTRIBUTOR

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TO RECENT UNEXPECTED PRICE WEANESS AND THAT COLOMB F HAS AGREED NOT TO SELL DURSHG THIS QUARTER. IN RESPONSE TO EMBOFF'S REFERENCE TO ALLEGED COLOMBIAN REBATING AND THE LARGE BRAZILIAN PRICE MARGIN OVER THAT OF THE MILDS, TINOCO SAID THE COLOMBIANS CONTINUE TO REBATE BUT THAT CALAZANS, IN HIS RECENT VISIT, ASSURED HIM THE IBC WOULD NOT RETURN TO DISCOUNTS, A POSSIBILITY MENTIONED IN REF D.

5. IN DISCUSSION OF THE PROSPECTS FOR A NEW ICA TINOCO REFERRED TO THE WANING INTEREST BY THE AFRICANS. HE SAID HE AGREED WITH CALAZANS' VIEW THAT THE FUTURE DEPENDS UPON THE CONSUMERS' REACTION TO THE VARIOUS PRODUCER UNIFICATION MOVES AS TO WHETHER OR NOT A STRUCTURED CONSUMER/PRODUCER CONSULTATION, AS IS OFFERED IN THE ICO, WOULD BE PROFITABLE. TINOCO DESCRIBED CALAZANS AS "NOT OPTIMISTIC ON THE ICA, NOT FEELING ANY POLITICAL INTEREST FOR IT FROM ANY QUARTER".

6. TINOCO SAID NO AGREEMENT AS YET EXISTED WITHIN THE GENEVA GROUP FOR DISPOSAL, OR CONTINUED RETENTION, OF THE 10 PERCENT RETENTION ASSIGNED FOR CY (COFFEE YEAR) 1973-74. THE CSC COMPLIED WITH EL SALVADOR'S 190,000 RETENTION QUOTA BUT ITS PRACTICAL EFFECT WAS LITTLE, SINCE DUE TO LOW PRODUCTION STOCKS ARE DOWN AND THR RETENTION QUOTA IS NOT REALLY AN INCREMENTAL STOCK PROVISION. TINOCO STILL SEES SALES FOR THIS CY AT 2.2 MILLION BAGS (60 KILOS); 1.7 MILLION HAVE ALREADY BEEN SOLD AND OVER ONE MILLION SHIPPED. SALES OVE 2.2 MILLION WILL DEPEND UPON THE DECISION ON THE RETENTION QUOTA AND WHETHER THE OPTIMISTIC OUTLOOK FOR CY 74/75 CROP (UP TO 2.4 MILLION EXPORTABLE

AS AGAINST AN ESTIMATED 1.9 MILLION LAST YEAR)
IS ACHIEVED, ALLOWED GREATER THAN USUAL DEPLETION OF STOCKS.
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